



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MORGAN COUNTY  
SHERIFF'S SETTLEMENT - 1998 TAXES AND  
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Sidney Stewart, Morgan County Judge/Executive  
Honorable Bill Frank Lacy, Morgan County Sheriff  
Members of the Morgan County Fiscal Court

The enclosed report prepared by Tamara L. Rice, Certified Public Accountant, presents the Morgan County Sheriff's Settlement - 1998 Taxes and 1998 Unmined Coal Taxes.

We engaged Tamara L. Rice, CPA, to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Tamara L. Rice, CPA, evaluated the Morgan County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT EXAMINATION OF THE  
MORGAN COUNTY  
SHERIFF'S SETTLEMENT - 1998 TAXES  
AND  
1998 UNMINED COAL TAXES**

**October 13, 1999**

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## **EXECUTIVE SUMMARY**

### **MORGAN COUNTY BILL FRANK LACY, SHERIFF SHERIFF'S TAX SETTLEMENT – 1998 TAXES AND 1998 UNMINED COAL TAXES**

**October 13, 1999**

On October 13, 2000 fieldwork was completed on Morgan County Sheriff Tax Settlement – 1998 Taxes and 1998 Unmined Coal Tax audit. An unqualified opinion was rendered on the financial statements. No reportable conditions relating to the audit of the financial statements were reported.

#### **Deposits and Investments**

The Sheriff's deposits were fully insured and collateralized as of October 13, 1999.





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Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 1998 Taxes and 1998 Unmined Coal Taxes as of October 13, 1999. These tax settlements are the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

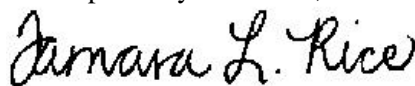
We conducted our audit in accordance with generally accepted government auditing standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principals.

In our opinion, the accompanying financial statements referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid as of October 13, 1999, in conformity with the basis of accounting described in the preceding paragraph.

In accordance with Government Auditing Standards, we have also issued a report dated October 13, 2000, on our consideration of the Sheriff's compliance and internal control.

Respectfully submitted,



Tamara L. Rice  
Certified Public Accountant

October 13, 2000



MORGAN COUNTY  
BILL FRANK LACY, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES

October 13, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 93,806	\$ 327,715	\$ 602,172	\$ 231,488
Tangible Personal Property	10,895	40,154	71,346	59,371
Intangible Personal Property				19,001
Bank Franchise	19,971			
Fire Protection	3,485			
Franchise Corporation	15,421	56,519	100,770	
Oil & Gas	135	473	870	334
Additional Billings	9	32	60	23
Limestone, Sand & Gravel	67	235	432	166
Increased Through Erroneous Assessments	4	13	25	9
Penalties	1,375	4,678	8,585	3,371
Adjusted to Sheriff's Receipt	(31)	(74)	(175)	(243)
Gross Chargeable to Sheriff	<u>\$ 145,137</u>	<u>\$ 429,745</u>	<u>\$ 784,085</u>	<u>\$ 313,520</u>
<u>Credits</u>				
Discounts	\$ 1,767	\$ 4,657	\$ 8,518	\$ 4,117
Exonerations	648	2,267	4,163	1,667
Delinquents:				
Real Estate	6,577	22,977	42,221	16,230
Tangible Personal Property	276	311	550	627
Total Credits	<u>\$ 9,268</u>	<u>\$ 30,212</u>	<u>\$ 55,452</u>	<u>\$ 22,641</u>
Net Tax Yield	\$ 135,869	\$ 399,533	\$ 728,633	\$ 290,879
Less: Commissions *	6,062	16,980	29,145	12,650
Net Taxes Due	\$ 129,807	\$ 382,553	\$ 699,488	\$ 278,229
Taxes Paid	129,784	382,653	699,346	278,227
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 23</u>	<u>\$ (100)</u>	<u>\$ 142</u>	<u>\$ 2</u>

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\* and \*\* See Page 4

MORGAN COUNTY  
 BILL FRANK LACY, SHERIFF  
 SHERIFF'S SETTLEMENT - 1998 TAXES  
 October 13, 1999  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	816,281
4% on	\$	728,633

\*\* Special Taxing Districts:

Library District	\$	(22)
Health District		(15)
Extension District		(30)
Soil Conservation District		1
Ambulance District		(34)

Due Districts or (Refunds Due Sheriff)	\$	<u>(100)</u>
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The accompanying notes are an integral part of the financial statement.

MORGAN COUNTY  
 BILL FRANK LACY, SHERIFF  
SHERIFF'S SETTLEMENT - 1998 TAXES UNMINED COAL

October 13, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 2	\$ 7	\$ 12	\$ 5
Net Tax Yield	\$ 2	\$ 7	\$ 12	\$ 5
Less: Commissions	-	-	-	-
Net Taxes Due	\$ 2	\$ 7	\$ 12	\$ 5
Taxes Paid	2	7	12	5
Refunds Due Sheriff as of Completion of Fieldwork	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of the financial statement.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT

October 13, 1999

Note 1. Summary of Significant Accounting Policies

Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff met the requirements stated above, and as of October 13, 1999, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.



MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
October 13, 1999  
(Continued)

Note 4. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 6, 1998 through October 13, 1999.

1997 Unmined Coal Taxes

The unmined coal tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 1, 1998 through June 30, 1999.

Note 5. Interest Income

The Morgan County Sheriff earned \$2203 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement – 1998 Taxes and 1998 Unmined Coal Taxes as of October 13, 1999, and have issued our report thereon dated October 13, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement – 1998 Taxes and 1998 Unmined Coal Taxes as of October 13, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

We concluded that the internal control structure lacks a proper segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, there is limited staff size, which prevents an adequate segregation of duties. The Sheriff has statutory authority to assume the role of custodian of monetary assets as well as recorder of transactions and preparer of financial statements. However, the lack of segregation of duties is hereby noted as a reportable condition.

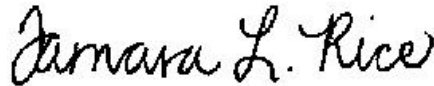
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(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be material weakness.

This report is intended for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice  
Certified public Accountant

October 13, 2000

